



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE ENROLLED BILL ANALYSIS

Date Amended:	Enrolled	Bill No:	AB 3020
Tax:	Business Taxes	Author:	Koretz
Related Bills:			

BILL SUMMARY

This bill would eliminate the January 1, 2006 sunset date for the Joint Enforcement Strike Force on the Underground Economy.

ANALYSIS

Current Law

Under current law, Section 329 of the Unemployment Insurance Code designates the Director of the Employment Development Division (EDD) as Chairperson of the Joint Enforcement Strike Force on the Underground Economy (Strike Force). The section also requires the Strike Force to include representatives of the EDD, Department of Consumer Affairs, the Department of Industrial Relations, and the Office of Criminal Justice Planning. Other agencies such as the Franchise Tax Board, the State Board of Equalization, and the Department of Justice are encouraged to participate. However, the statute will remain in effect only until January 1, 2006.

Under current law, the Strike Force is given the following duties:

- Facilitate and encourage the development and sharing of information by the participating agencies necessary to combat the underground economy.
- Improve the coordination of activities among the participating agencies.
- Develop methods to pool, focus, and target the enforcement resources of the participating agencies in order to deter tax evasion and maximize recoveries from blatant tax evaders and violators of cash-pay reporting laws.
- Reduce enforcement costs wherever possible by eliminating duplicative audits and investigations.

Proposed Law

This bill would amend Section 329 of the Unemployment Insurance Code to eliminate the scheduled sunset date of January 1, 2006, allowing the Joint Enforcement Strike Force on the Underground Economy to continue indefinitely.

Background

The Board of Equalization is a core member of the multiagency Strike Force. The Strike Force was created by Executive Order W-66-93 on October 26, 1993 and subsequently codified through Senate Bill 1490 (Ch. 1117) in 1994. The Strike Force has achieved significant enforcement results in all phases of its efforts. Joint efforts among the different agencies have proven to be very effective. Collective enforcement capability allows participating agencies to address multiple rather than single violations of law,

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such as the Employment Enforcement Task Force efforts as explained in the Revenue Estimate comments. The multiple enforcement efforts with associated citations, penalties, and assessments has had a significant effect on underground economy businesses. The effect has been to drive these businesses into the legitimate economy or to put them out of business. This reduces the pressure of unlawful competition on honest businesses.

Senate Bill 319 (Ch. 306, Stats. 1999) extended the sunset date provision from January 1, 2000 to January 1, 2006.

COMMENTS

1. **Sponsor and purpose.** This bill is sponsored by the author. The purpose of this bill is to extend the life of the successful Strike Force indefinitely.
2. **Summary of amendments.** Previous versions of this bill contained provisions relating to taxation of cigarette and tobacco products. The **August 23** amendments added additional Labor Code provisions that would not impact the Board.
3. **The Board has benefited from its participation in the Task Force.** Although the primary source of unreported state revenues generated by the Strike Force are from payroll taxes, the Board has been able to enhance its presence among a certain segment of bars, restaurants, and clubs which were seriously underreporting their sales tax liabilities.

COST ESTIMATE

The administrative costs associated with this bill are expected to be minimal. The Board would continue its current participation in the Strike Force.

REVENUE ESTIMATE

According to the 2003 Strike Force Annual Report, the Strike Force participated in 710 investigations, identified \$232,405,577 in unreported wages, issued citations for violations of the labor code totaling \$3,704,452, and issued assessments for various payroll taxes owed and associated penalties and interest totaling \$29,112,064. Information on the amount of unreported sales tax discovered was not included in the report.

The Board's participation with the Strike Force began with the Employment Enforcement Task Force (EETF), the first joint enforcement project created by the Strike Force. To date, the EETF has targeted business involved in construction, automotive repair, garment manufacturing, bars, restaurants, clubs, furniture manufacturing, adult entertainment, bakeries, produce markets, car washes, and pallet repair business for compliance with payroll tax, labor, and licensing laws. Leads for investigations come from hotline numbers, other government agencies, industry sources, and EETF staff.

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As a result of its participation in the Strike Force's efforts, the Board has been able to crack down on a number of noncompliant retailers operating bars, restaurants, and clubs. EETF agents from each agency jointly conducted onsite investigations of businesses. Once the bars and restaurants premises were secured by law enforcement and cleared of patrons, Board auditors were then able to safely enter the premises and obtain purchase invoices and cash register tapes to support the underpayment of taxes.

Although the amount of tax, interest and penalties assessed in recent years as a result of the Board's participation in the Strike Force is not available, it has been a valuable part of the Board's audit program.

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